

ORIGINAL

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

RECEIVED  
OCT 25 9 57 AM '96  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE  
WITNESS: JAMES F. CALLOW (USPS/OCA-T300-1-17)  
(OCTOBER 25, 1996)

The Office of the Consumer Advocate hereby submits the answers of James F. Callow to interrogatories USPS/OCA-T300-1-17, dated October 11, 1996. The answers assume that all references in the interrogatories are to OCA-T-300, as revised October 8, 1996. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

*Shelley S. Dreifuss*

SHELLEY S. DREIFUSS  
Attorney  
Office of the Consumer Advocate

OCT 25 1996

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-1. Please refer to our [sic] testimony at page 4, lines 17-19. Do you agree that "these greater administrative burdens" would represent extra costs? If no, please explain fully.

A. The quoted phrase refers to greater administrative burdens associated with non-resident box service. Since the Postal Service has not quantified any attributable cost differences associated with providing box service to residents versus non-residents, or provided any studies on the frequency of cost-causing behaviors of residents versus non-residents, I do not know whether there are any extra costs for providing box service to non-residents. The fact that the Postal Service has not seen fit to quantify any alleged cost differences suggests that such a cost difference is insignificant.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-2. Please refer to your testimony at page 8, lines 18-20 and to Transcript volume 3, page 691. Is it possible to justify a fee on the basis of "cost-causing" behavior by non-residents even if you cannot determine the precise amount of the cost? If your response is in the negative, please explain fully.

A. No. The Postal Service has not demonstrated that there are any cost differences associated with providing box service to non-residents vis-à-vis residents. Moreover, the non-resident fee should bear some relationship to costs. Since the alleged extra costs of non-resident box service are unknown, the Commission would not know where to set the fee in relation to costs.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-3. Please refer to your testimony at page 9, lines 13-15. Is it your claim that witness Needham relied only on newspaper articles to "establish a link between the unavailability of post office boxes and non-resident usage?"

A. No. I only know what witness Needham said she relied on. I reviewed pages 25-31 in witness Needham's testimony. There were numerous references to LR-SSR-105, which is comprised of newspaper articles on post office box service. Witness Needham later obtained anecdotal information from postmasters and district managers concerning non-resident box usage which appeared in the supplemental response to OCA/USPS-T7-38. See Tr. 3/716-17 and 738. Although witness Needham did not specifically mention witness Landwehr's testimony concerning the unavailability of post office boxes and non-resident usage, it is possible she may have relied on witness Landwehr for this purpose with respect to Blaine, WA. I am not aware of other information relied upon by witness Needham for this purpose.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-4. Please refer to your testimony at page 10, lines 2-4.

- (a) In what way(s) would non-residents be forced to move their box service under the Postal Service's proposal? Please provide all evidentiary support for your response.
- (b) Provide all information you have to support a claim that "forcing non-residents to move would [sic] simply shift box shortages to other post offices."

A. a.-b. The quoted portion of my testimony from page 10 is incomplete. I said: "What witness Needham fails to demonstrate is that forcing non-residents to move would not simply shift box shortages to other post offices."

Under the Postal Service's proposal, non-resident boxholders face three choices: pay the non-resident fee; not pay the non-resident fee and become resident boxholders at their local delivery post office; or no longer obtain box service from the Postal Service. To the extent non-residents become resident boxholders, box shortages could occur in other post offices. Apparently witness Needham did not consider this possibility. The Postal Service has provided no information on the number of non-resident boxholders that might become resident boxholders as a result of its proposal. I have no evidence on this point; it is a matter of logic.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-5.

- (a) Please refer to page 11, lines 3 to 7 of your testimony, where you refer to witness Lion's finding that 38 percent of postal facilities have all boxes in use for at least one size category. Please confirm that such a situation does present a "post office box shortage problem" for the customer that wants a box of the particular size that is unavailable, at the prescribed fee for that box size. If you do not confirm, please explain.
- (b) Please refer to your testimony at page 12, lines 3-5, where you state that "a more realistic measure [sic] is to count only [sic] where no boxes of any size are available" (emphasis added). Please explain why this is a more realistic measure for those customers interested in a particular box size at the specified price.

A. a. Witness Lion grossly exaggerated the unavailability of post office boxes on a nationwide basis with his 38-percent figure. This is the point of my testimony. See OCA-T-300 at 11. For box size 1, 10 percent of post offices report all boxes of this size are in use. The percentages for box sizes 2, 3, 4 and 5 are, respectively, 13, 22, 12 and 5 percent. See USPS-T-4, Table 6, at 9. Thus, for a potential boxholder who desires a particular box size (and no other), the highest probability of finding a post office where all boxes are in use is 22 percent for a box size 3.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

CONTINUATION OF ANSWER TO USPS/OCA-T300-5:

b. This is a misquote of my testimony. The complete quote is, "A more realistic measure of resident boxholder hardship is to count only those offices where no boxes of any size are available."

For a resident seeking box service at the resident's local delivery office, the absence of any boxes available would preclude resident box service. Using Postal Service data, the probability that any one resident would face this situation is about 5 percent. See Attachment to Notice of OCA-LR-2. In other words, the fact that a resident could walk into 95 percent of all post offices from the PO Box Study and obtain a box seems to me a more realistic measure of hardship for potential resident boxholders.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-6. Please refer to your testimony at page 11, lines 12-13.

- (a) Please provide any evidence you have to support your assertion that potential boxholders in post offices where all size 1 boxes are in use may still be willing to use a size 2 or size 3 box.
- (b) Do you believe that the potential boxholder would not care about the facts that size 2 boxes are at least 45 percent more expensive than size 1 boxes, and size 3 boxes are over 150 percent more expensive than size 1 boxes.

A. a.-b. See USPS-T-4, Table 11. Note first that this problem exists at only 10 percent (not 38 percent) of post offices. USPS-T-4, Table 6. A potential boxholder facing this problem would care. However, the average fee for the lowest-priced CMRA boxes is between 203 and 503 percent more expensive than a size 1 box. Compared to paying even higher fees for box service at a CMRA, a post office box size 2 or 3 would be attractive.



ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-7. Please refer to page 12, lines 12-14 of your testimony.

- (a) Please explain why there is "no nationwide box availability problem" for those customers at facilities that have no boxes or that have boxes only in a size not wanted.

A. a. Potential boxholders have a 95-percent chance of obtaining box service at the post office of their choice on a nationwide basis. OCA-T-300 at 12. In my view, that does not constitute a nationwide box availability problem for any potential boxholder. If there is no non-resident fee, the probability of obtaining the box size of choice at a nearby post office for the same price is even higher. In the case of two post offices and box size 1—the most popular box size—the probability is almost 99 percent.

Even for potential boxholders seeking only box size 1, the chance of obtaining this box size at the post office of their choice is 88 percent  $(1 - .11667 * 100)$ .<sup>1</sup>

---

<sup>1</sup> See Attachment to Notice of OCA-LR-2. Compare Table: Proportion Of Facilities With No Boxes Available (line 5) with the Table: Proportion Of Facilities With All Boxes Rented (line 5), which replicates Table 6 from USPS-T-4. The probability of no boxes of size 1 being available (11.667 percent) is not the same as the probability of all boxes size 1 rented (10 percent). For example, there can be no size 1 boxes available at an office where none are installed.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-8. Please refer to your testimony at page 15, lines 20-21, and page 16, lines 1-2.

- (a) Are the current Group I fees with subgroups A, B, and C discriminatory? If no, please explain fully.
- (b) Since Group I and Group II both offer carrier delivery, is the large fee discrepancy between these two groups discriminatory? If no, please explain fully.

A. a.-b. Yes. Both within Group I and between Groups I and II, there are large, unexplained disparities in cost coverage. Group IC pays a much higher cost coverage for the same level of box service than Groups IA and IB. Group II pays no institutional costs at all. In developing my fee proposal, I tried to reduce the disparity in cost coverage by group. However, a real solution to this problem would require redefinition of groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-9. Please refer to your testimony at page 16, lines 13-15, witness Carlson's testimony, and LR-SSR-105.

- (a) Does witness Carlson anywhere in his testimony provide reasons why customers desire non-resident box service? Please identify all cites.
- (b) Does LR-SSR-105 provide reasons why customers desire non-resident box service? Please identify all cites.

A. a. I cited witness Carlson in my testimony at page 27 with respect to the value of box service generally. I have neither cited nor examined witness Carlson's testimony for the purpose requested.

b. I cited LR-SSR-105 in my testimony at page 9 concerning the unavailability of post office boxes and non-resident usage. I have neither cited nor examined LR-SSR-105 for the purpose requested.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-10. Please refer to your testimony at page 24, lines 10-13. Why would proposed fees that are below the fees recommended by the Commission and approved by the Governors in Docket No. R94-1 be "presumptively fair and equitable"?

A. The fees I propose that are unchanged from those recommended by the Commission and approved by the Governors are unquestionably fair and equitable. The fees I propose that are lower than the fees recommended by the Commission and approved by the Governors are balanced by proposed increases for Group II boxes, where fees are well below cost. The combination of the fee increases and decreases I propose produces a test year cost coverage that is equal to the cost coverage in the test year under the current fee schedule; i.e., that recommended by the Commission and approved by the Governors in Docket No. R94-1.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-11. Please refer to your testimony at page 24, lines 19-21. Assume you proposed the Postal Service's proposed box fees for Subgroups IA and IB. Could your proposed Group IC fees have then been adjusted down from the Postal Service's proposal to move the Subgroup IC cost coverage closer to the Subgroups IA and IB cost coverages?

A. The mathematical exercise you describe is possible.

However, I rejected this option on policy grounds when developing my fee proposal. This option would have resulted in a large revenue gain and a cost coverage greater than 100 percent—the cost coverage in the test year at the Commission's recommended fees.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-12. Please refer to your testimony at page 25, lines 15-20 and your Table 2. Why do you feel it is necessary to propose a cost coverage below 100 percent for Subgroup IA, sizes 4 and 5, and Subgroup IB, sizes 4 and 5?

A. I did not attempt to propose a 100 percent cost coverage for every box size. In developing my fee proposals, I attempted to balance several goals while maintaining contribution neutrality. One was to reduce the disparity in cost coverage by box size. I also attempted to, and succeeded in, moving the cost coverage for box size 5 closer to 100 percent than it would be under current fees.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-13. Please refer to your testimony at page 26, lines 8-10. Would the disparity between Group I and Group II fees still be reduced under the Postal Service's proposal. Please explain your answer fully.

A. Yes. However, in contrast to the Postal Service's proposal for Group IC and Group II fees, my proposal results in a much smaller disparity between Group IC and Group II fees. This is a consequence of my proposal to reduce Group IC box fees from current levels. My fee proposal for Group IC and Group II also addresses the disparity in cost coverages by group and box size. However, a real solution to this problem would require redefinition of groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-14. Please refer to page 26, line 19 of your testimony.

- (a) Please explain why "post office box service offers relatively low value".
- (b) Does this mean low relative to alternatives such as CMRAs.
- (c) Does this imply a low or high price elasticity?

A. a. See OCA-T-300, page 26, lines 19-21 through page 27, lines 1-5.

b. My comparison was to carrier delivery service. However, post office box service offers low value relative to CMRAs. CMRAs offer services not available with post office box service, such as call-in checking for mail, notaries public, and suite or box address numbers.

c. Although I am not an economist, it is my understanding that price elasticity is a measure of marginal value. My responses to a. and b. above involve considerations of total value. There is no necessary relationship between total and marginal values; that is, two different functions can have the same slope, or marginal value. My testimony makes no reference to price elasticity as a measure of the value of post office box service actually provided to senders and recipients. Rather, I compare the value actually provided to recipients of various means of receiving their mail.



ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-15. Witness Sherman at page 29, lines 19-21 of his testimony argues that it "would not be unreasonable" to raise Group II fees to cover costs.

- (a) Do you agree with witness Sherman's statement? If not, please explain.
- (b) Why are you proposing Group II box fees that are below cost?

A. a. Yes. It is not unreasonable, and I treated it as a goal.

b. A 100 percent cost coverage in Group II boxes would have required fee increases ranging from 171 to over 330 percent. The goal of increasing Group II fees to cover cost was offset, to some extent, by consideration of the impact of such fee increases on boxholders. Also, fee increases of this magnitude would have produced a large increase in revenue, thereby exceeding the test year cost coverage, at Commission-recommended fees, of 100 percent. A real solution to this problem would require redefinition of groups.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-16. Please refer to your testimony at page 27, lines 15-17.

- (a) Why do you propose a lower cost coverage for post office box and caller service than the 115 percent cost coverage recommended by the Commission in Docket No. R94-1?
- (b) What changes in post office box service justify this decrease in cost coverage?
- (c) Do you believe that post office box and caller service have a lower value of service now than during Docket No. R94-1?
- (d) Has the Commission ever recommended a cost coverage for post office box and caller service as low as the 115 percent cost coverage recommended by the Commission in Docket No. R94-1?
- (e) Please explain why there should be no markup to cover institutional costs on post office box and caller service.

A. a.-c. and e. My proposed fees are in keeping with the contribution neutral premise of classification reform, as explained in the testimony of OCA witnesses Sherman and Thompson.

The Commission's recommended cost coverage in Docket No. R94-1 for post office boxes is not a legitimate benchmark. This is clearly not a case in which FY 96 cost coverages are being equated with R94-1 recommended cost coverages. Only the 100 percent cost coverage in the test year of this proceeding resulting from the Commission's R94-1 recommended fees is relevant. Since this is not a general rate proceeding, I make no

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

CONTINUATION OF ANSWER USPS/OCA-T300-16:

reference to the Commission's recommended cost coverage in a different test year. Moreover, the fees I propose for post office box service produce a cost coverage of 100 percent that is equal to the test year cost coverage at the Commission's R94-1 recommended fees.

d. Note: As per a telephone call between Postal Service and OCA counsel on October 18, 1996, subpart (d) has been revised as follows: "Has the Commission[, in any other docket,] recommended a cost coverage for post office box and caller service as low as the 115 percent cost coverage recommended by the Commission in Docket No. R94-1?"

Answer. I do not know. I have not reviewed prior Commission recommended decisions to determine the cost coverages recommended by the Commission for post office box service. As this is not a general rate case, no such review was necessary or appropriate.

ANSWERS OF OCA WITNESS JAMES F. CALLOW  
TO INTERROGATORIES USPS/OCA-T300-1-17

USPS/OCA-T300-17. How does your post office box fee proposal reflect the fact, as presented by witness Needham (USPS-T-7 at 11-13), that CMRAs generally charge considerably more for boxes than the Postal Service.

A. See OCA-T-300, page 28, where I discuss the available alternatives. Since I propose a cost coverage equal to that resulting from current fees in the test year, my fee proposal takes into account the level of CMRA fees to the same extent as the current fees which were recommended by the Commission and approved by the Governors in Docket No. R94-1.

DECLARATION

I, James F. Callow, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T300-1-17 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed October 25, 1996

James F Callow

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.

*Shelley S. Dreifuss*

SHELLEY S. DREIFUSS

Attorney

Office of the Consumer Advocate

Washington, DC 20268-0001  
October 25, 1996